RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 9, 1998 **LETTER 1260**

THE BEAR is doing his nasty job. What's his job? It's to move the stock market down while keeping as many people as possible IN the market. How does he do it? Periodic rallies, rallies that convince people that "all is well." Rallies that keep people wondering if "we're really in a bear market." Plus, of course, the usual bullish blather from media and Wall Street "experts" who haven't a clue as to what's really happening.

Under the guise of the big 288-point Dow rally (Sept. 1), the great majority of stocks exhibited only half-hearted recoveries. Next day the market turned ragged again, followed by further weakness on Sept. 3. Transports are proving to be a bellwether of this bear market, sinking almost daily to new lows. The Utility Average, ominously, is breaking down from a huge "head-and-shoulders" top pattern. Finally, note the action of the Dow and the "crash-action" of the advance-decline ratio as seen on the page 2 chart. As for sentiment, the bullishness that has been so thoroughly ingrained in the minds of US investors is slowly but inexorably being reversed.

Interestingly, on the big September 1 rally, my Primary Trend Index (PTI) added only three points. On September 2, with the Dow rally fading to a loss, the PTI lost two points. By the September 3 close, the PTI was at a new bear market low.

EXTRAPOLATION: This is the process of projecting a current trend out into space. Which is exactly what the bulls were doing when they predicted the Dow would rise to 10,000 and beyond by the end of the year. The bulls took for granted that current **earnings growth would continue into 1999, 2000, 2001 and on and on.** The fact is that nobody knows what earnings will be next year, or the year after, nobody. You see, extrapolation works wonderfully until, well, until it stops working. Now Wall Street's favorite economist, Ed Hyman, writes that "we expect S&P earnings to decline -2% in 1999 to $45. Downward pressure on earnings include (1) Asia, (2) the dollar, (3) price competition, (4) labor costs, and (5) slower US foreign growth." **Russell Comment:** Who knows, Ed may even turn out to be an optimist.

To me, the most amazing thing about the current situation is that almost nobody has mentioned the Dow Theory bear market signal of August 4. This is the time-honored signal that told us that the tide had turned, that the bull market is over and that the bear is now in command.

So why is nobody talking about the thesis that we are now dealing with a primary bear market? I've pondered long and hard about this and I've concluded that over recent years thinking and perceptions have changed. Most analysts have never studied the Dow Theory and therefore they know little or nothing about this **most basic concept of how the market works.** Furthermore, the idea of a tidal force in the market is now either resisted, ignored or disbelieved. With **news** being instantly flashed across the nation via radio, TV and the Internet, investors have become so obsessed with news, news, news, that they no longer believe in **inexorable trends** that express themselves no matter what. They no longer understand or believe the Big Picture. And, of course, the great **primary trend of the market.**

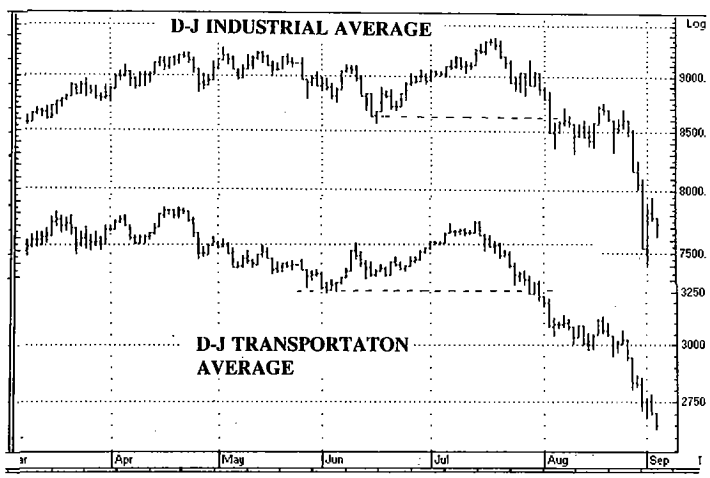
Aug. 28 DJIA 8051.68; PTI 5285; A-D Ratio +4.43
Sept. 3 DJIA 7682.22; PTI 5274; A-D Ratio +3.80
Dow Yield: 1.94%; Dow Price/Earnings: 19.3
Dow 144-day MA: 8628; Dow 34-day MA: 8415
Dow Times Book Value: 5.05; PTI 89-day MA: 5314
Percentage of Undervalued Blue-chips: 6%
Gold 34-day MA: 289

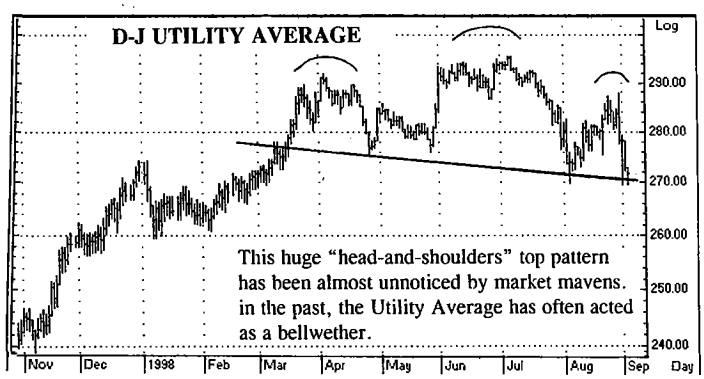
Today, investors are totally preoccupied with the news and the events of the day or even the hour -- will Rubin say this, will the Fed cut rates, will Yeltsin last, will Clinton be impeached? The concept of the tidal wave, the idea that bull or bear markets can last for years, those concepts have been lost. Everything today seems to be based on the immediate fact or rumor, the instantaneous news of the hour.

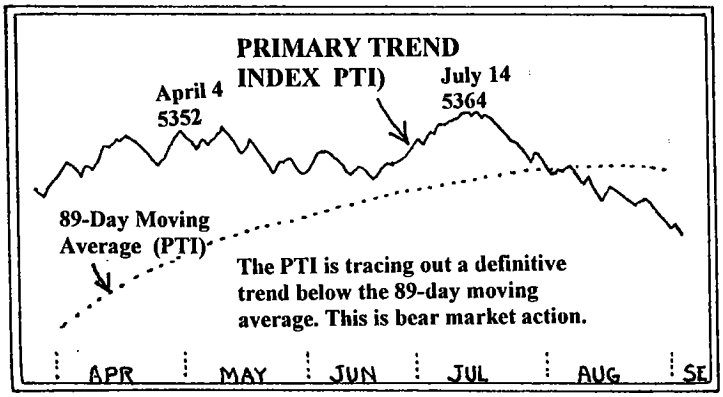
The other day a broker called me and asked, "What do you think of this action, Russell, how the devil can you explain it?" I answered with the four words that I've repeated over and over again, **"It's a bear market."**

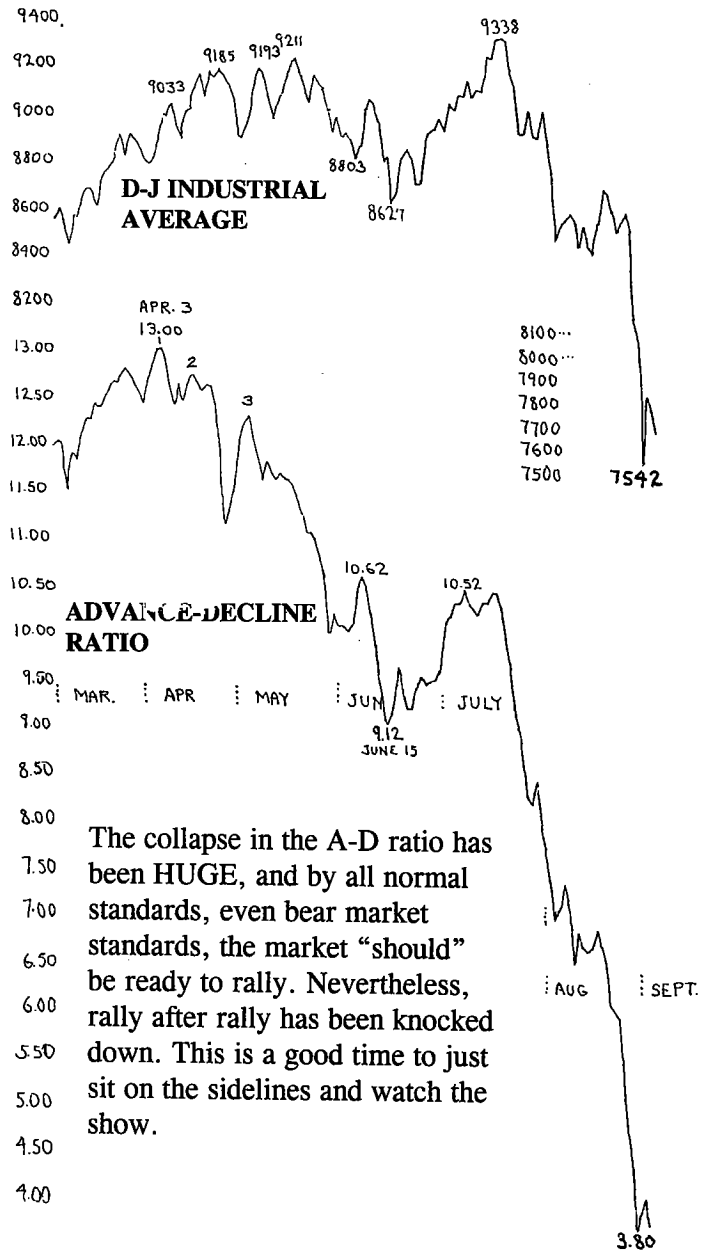
THE BEAR: Bear markets are merciless, and this one's been no exception. The losses in the various markets from stocks to commodities to currencies have been horrendous. Already many stocks have lost anywhere from 20% to 70% of their peak value, and the slaughter goes on.

I've been following the breadth indices (the advance-decline ratio) for over 35 years, and I can tell you there's nothing more basic or informative in the stock market than **the direction of the majority of stocks on the NYSE.** But this decline in the A-









D ratio which began at the April 3 high is one of the fiercest, the most relentless, the most costly, that I've ever seen.

I've shown the Dow together with the A-D ratio on the above chart, and you can see that whereas the Dow has declined somewhat grudgingly (thus masking a good deal of the severe damage) the A-D ratio has literally crashed. The April through August bear market decline has, so far, cost investors billions of dollars in losses or lost profits.

In a separate chart on page 2, I show my Primary Trend Index (PTI), and here also the red flag is clearly flying. On August 4 the PTI broke below its 89-day moving average, thus placing the PTI in its full bearish mode. The bearish verdict was confirmed when two weeks ago the 89-day MA itself turned down.

Then, of course, we have the all-important Averages. The D-J Transportation has been the bellwether Average, so far, in this primary bear market. The Transportation Average refused to follow (confirm) the Dow to new highs in July, and it led the way on the downside. Day after day the Transports recorded successive bear market lows while the Dow tended to resist. Finally, on August 27, the Dow broke to a new bear market low, thereby confirming the long series of new lows in the Transports. Incidentally, on August 27 the 34-day moving average of the Dow broke below the 144-day MA, thus effectively sealing the Dow's fate (see page 1 chart).

Question: Russell, what do you see that is really different about this bear market?

Answer: Probably the most prominent difference between this bear market and previous bear markets (except for 1929-'32) is that this time we have **interest rates declining** whereas in almost every other bear market interest rates were rising. Actually, this decline in rates is the main evidence that the perma-bulls have been using in their arguments to the effect that "this cannot be a bear market." Of course, the **bear loves that kind of thinking.** Stock market history tells us that each successive bear market is set off by different circumstances -- but the "experts" always are guided by the last example.

Of course, what's happening today is **outside the experience** of probably 98% of today's analysts and commentators. I'm talking about a bear market that's occurring in the face of **world deflation and declining interest rates.** You have to go back to the 1930s to have had experience with this deadly combination.

Question: Russell, how would you answer the argument of the perma-bulls who say that you can't have deflation or a bear market with an expanding money supply, and, of course, the money supply is expanding?

Answer: On the face of it, it does seem a mystery in that all the bear market weakness that we've seen during 1998 has taken place in the face of a booming US money supply. For instance, MZM or money of zero maturity, has grown at an 11.5% rate over the last 12 months. This means that almost half a billion dollars in instantly spendable money has been flooding into US coffers. Much of this money has been pouring into the booming housing market. And a lot of it has been moving into both the stock and bond markets.

But wait. Today we are dealing with **globalized markets.** And while there are plenty of dollars sloshing around the US, there is a **great scarcity of dollars in the rest of the world.** In the meantime, hundreds of billions of dollars worth of bad loans and uncollectible debts are being wiped out. **Internationally, money and credit are being destroyed.** Thus, the globalization of the world's markets has not been "the great gift" that was promised to America's stock market bulls, at least so far.

Question: Russell, you talk about the booming US money supply. But at the same time commodities are slumping in the worst commodity bear market in modern memory. For instance, last week the Goldman Sachs Commodity Index sank to a 21-year low under 137. What's the meaning of this disastrous bear market in commodities?

Answer: In the past, slumping commodities have almost always been associated with poor business and recessions. And as I see it, the current commodity collapse will prove to be an integral part of the gathering worldwide bear market in both stocks and commodities.

What has happened is that many nations have vastly increased their commodity production capabilities. Thus, the supply of commodities is bigger than ever. The result is that the world is now dealing with an over-supply of almost every commodity while at the same time one-third of the world (Asia) has literally ceased buying commodities. Result -- a global price collapse.

Question: Everybody is zeroing in on economic problems. But could this bear market be dealing with other factors?

Answer: The stock market reflects economic, social and political developments. And I believe this bear market is reflecting political and social trends as much as economic trends. One trend that I find very ominous is the gradual but seemingly relentless rise of Islam vs. the West and particularly Islam vs. the US. This, it seems to me, is a growing menace that is fated to loom much larger in our future. So far, this phenomenon has been characterized by isolated acts of terror, but I'm afraid this is just the beginning of the underground war between Islam and America (America which many followers of Islam call "The Great Satan"). US strategists seem to believe that the war can be won by firing cruise missiles at selected sites. It ain't going to be that easy, believe me.

Question: Russell, you've talked about the huge size of today's markets. How about public participation?

Answer: The August 23 *NY Times* included an article which shows how pervasive the market mania has become. "Receptionists, doormen and construction workers have joined dentists, architects and lawyers as stock market mavens. More Americans appear to be tracking stocks, talking about them, than ever before. TV sets in restaurants, bars and airports lounges are tuned to financial networks that did not even exist 10 years ago. CNBC reports that its viewership increased 75% in the last year, and as many as a million households have tuned in right after the market's 4PM close. . . . Magazines on every newsstand tout 'Ten Stocks to Buy' or, in the case of the current *Worth* magazine, 'How to Live Rich.'"

The September 7 issue of *Fortune* magazine includes the cover story, "Has This Market Gone to the Pigs? Wretched Excess. Wild Stock Swings. Program Trading Madness." The article goes on to talk about "whole-house sound systems that cost $250,000 installed . . . Los Altos Golf and Country Club membership at $290,000 . . . Greenwich, CT nannies at $1,000 per week." The article adds, "Not so long ago a million dollars a year seemed like an absurdly extravagant income, and for nearly all the world's inhabitants, it is still the stuff of fairy tales. But in certain places in American business and finance -- notably executive suites, Wall Street and Silicon Valley, a million dollars a year today seems like chump change. An overstatement -- not really."

Question: OK, Russell, I get the idea -- huge stock markets, massive public participation, extraordinary excesses. But so what? What does this all add up to?

Answer: It seems to me that all the above constitute the perfect background for a bear market. Obviously, background alone is not enough to set off a bear market. We've had this kind of "background of excess" all through the '90s, but now we have something else -- a classic Dow Theory bear signal. We've also had market breadth collapsing, we have severe damage in many stocks, and we have widespread skepticism as to whether anything is really wrong. But above all -- we've had a **turn in the tide.**

Question: Russell, in the last Letter you emphasized drawing conclusions about the market based only on closing prices. Why closing prices?

Answer: Closing prices show where the market is **minus** all the intra-day traders and in-and-out scalpers. Closing prices tell us what the market is worth on the basis of what investors are willing to go home with. For that matter, Friday closing prices tell us what the market is worth based on what investors are willing to hold over the weekend.

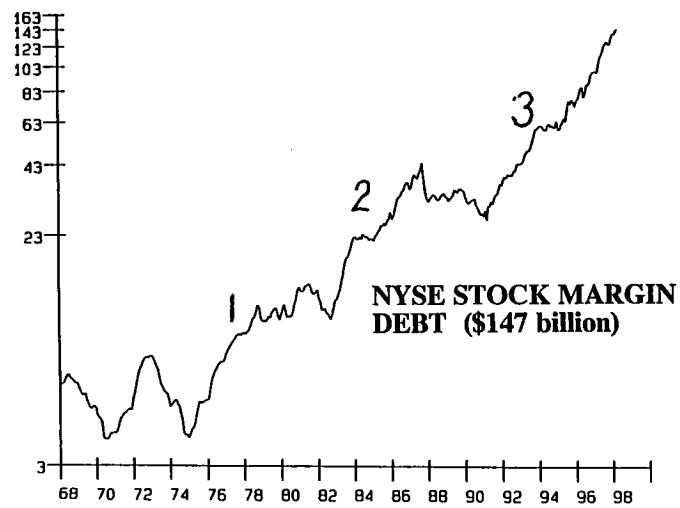
Question: You've seen a lot of bear markets, and you say that each one is different. I know it's early, but how would you characterize this one?

Answer: **(1)** Huge public participation and a dangerous perception that mutual funds are "safe." **(2)** Global bear market. **(3)** Deflationary background with declining interest rates. **(4)** Outstanding arrogance and general disbelief on the part of Wall Street analysts. **(5) Relentless attrition** on the part of most stocks.

Question: I note that even in your *Barron's* interview (Aug. 31) you state that the bull market began in 1974. Why do you hold that view?

Answer: I have always believed that the bull market started at 577 on the Dow in 1974, and that since then we have never had a true third phase for the bull market -- until the wild, speculative, huge-volume, over-priced markets of the '90s.

This is a chart that I believe backs my thesis (chart courtesy of *ISI*). Here we see NYSE margin debt starting up in 1974, and rising in three distinct surges (margin correlates closely with market direction). The correction of the early '80s and again of the late '80s did not suggest a termination of the bull market. During a true bear market, margin debt usually drops all the way back to the point where the bull market started. Thus, in the current bear market I expect to see an ultimate massive drop in margin debt. This will occur as speculators (who are the main margin users) are slowly but systematically beaten down by the bear.



Question: Russell, I note that everybody is now saying that "the definition" of a bear market is "a decline of 20% or more." What do you make of this?

Answer: I must say this is a new one. Somehow this goofy definition has sprung up and been widely disseminated over the last few months. It's a useless and totally incorrect definition. The following is from "The Dow Theory" by Robert Rhea. *"A primary bear market is a long downward movement interrupted by important rallies. It is caused by various economic ills and does not terminate until stock prices have thoroughly discounted*

the worst that is apt to occur. There are three principal phases of a bear market. The first represent the abandonment of hopes upon which stocks were purchased at inflated prices. The second phase reflects selling due to decreased business and earnings. The third phase is caused by distress selling of sound securities, regardless of their values, by those who must find a cash market for at least a portion of their assets."

Russell Comment: A primary bear market differs from a bull market correction as follows: A bull market correction is simply a decline in a bull market that serves to **correct a preceding period of over-speculation.** A bull market correction does not reflect a fundamental long-term change in the economy.

A primary bear market has to do with **longer-term negative changes in the basic fabric of the economy.** Bear markets tend to last much longer than bull market corrections and negative developments in a bear market tend to "feed on each other," thus driving stock prices to progressively lower levels.

INVESTMENT POSITION: In case you still have doubts, the bear is in the box. When I listen to the CNBC parade of analysts and commentators, what I hear is that this market is guided by the news of the day. If only Japan would do this, if only the Russians would do that, it only Venezuela will resist devaluation, if, if, if. What I'm saying is that analysts don't see this as a "turn in the tide." No, they see it as a day by day series of problems and mistakes.

Bear markets don't work that way. Bear markets are tidal sweeps. They take time. They are deceptive. They do things that nobody expects.

For example, the following is from the daily report of Ed Hyman's *International Strategy and Investment.* It starts, "We *cannot recall a calamity as big as what is currently unfolding. Obviously, Russia is on the verge of chaos. In addition, the Eastern European markets have been hit. Latin America has been hit. Pac Rim markets are still depressed. The Japanese bank stock index hit a new low today, as the Japanese Government Bond yield, which is on the verge of breaking below 1%, dropped precariously to a new low."*

What I'm trying to show is the scope, the sweep, of this bear market. And as I see it, this is only the beginning. It's fated to continue for many months, and perhaps (God help us) for years.

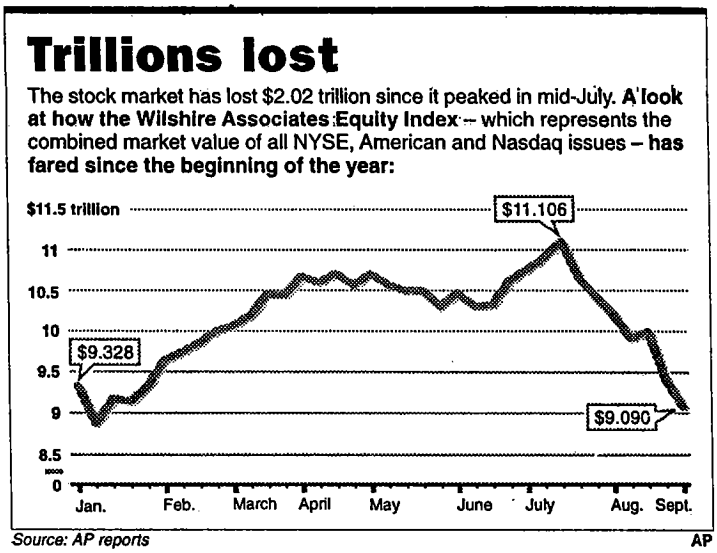
What do we do? We survive. We survive by keeping it simple. The simple way to survive is to move into US Treasury paper or absolute top quality bonds.

Don't fight the bear, because the bear's young now, and he's very strong. I promise you, if you are planning to fight the bear, if you plan to wait him out, he will win. He's going to wear you out. That's the way he works. He likes to keep it simple too. And his favorite word is -- "losses." Advice for those who are still undecided -- "The first loss is the best loss."

NOTES & QUOTES: I've been swamped by letters from subscribers who have been asking every conceivable kind of question. Honest, I just can't answer all these nice letters; I simply don't have the energy, and in some cases I don't have the answers. Forgive me, dear subscribers, forgive me. I can't do it.

* *

How much has the bear market cost the US so far? Based on the Wilshire Index, the bear has sliced off roughly $2.02 trillion in values from a peak total of $11.106 trillion. Some people wonder where that $2.02 trillion has gone. The answer: it's evaporated, disappeared into thin air as stocks headed down.



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Here's what happened in markets around the world (in dollar amounts) during just the month of August: US -- down 14%; Canada -- down 21.9%; Brazil -- down 39%; Mexico -- down 34.3%; Russia -- down 59.2%; Japan -- down 11.5%; Australia -- down 13.7%; Singapore -- down 19.6%; emerging Asia -- down 18%. And that was just August (MSCI data). I mean, this is a global bear.

* *

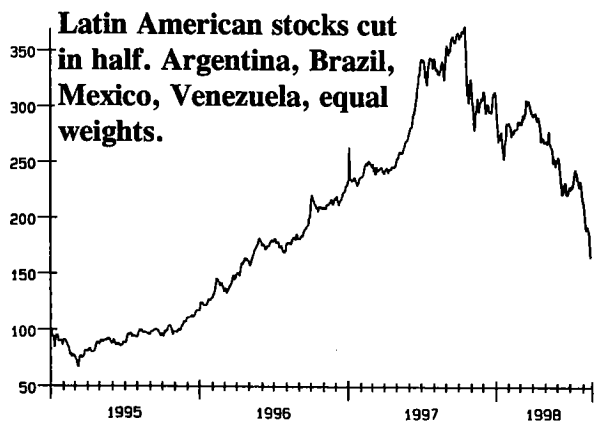
Trends have always fascinated me. This is probably one of the main reasons why I got into this crazy business in the first place. At any rate, here are some of the trends that I see either occurring now or about to occur.

(1) The US, like it or not, has become both the central banker to the world ("the banker of last resort") and policeman to the world. These are both extremely difficult positions. As the world's central banker and keeper of the reserve currency, we now see Europe coming up with their new currency, the euro. It's clear that Europe wants the euro to compete with the dollar. And it will.

As far as being policeman to the world, we can see this clearly as the US sends missiles into supposed "terrorist" strongholds. Of course, everyone hates the policeman, so we better be prepared for a lot of global anger. Already, much of the world either envies us, hates us or is jealous of us. Uncle Sam the world's policeman -- also the world's target.

(2) The thesis that if we build up Asia, these nations will become prosperous and contribute to world (and, of course, US) prosperity. So the Japanese and the S. Koreans and the Taiwanese and the Hong Kongers were exporting like crazy and all doing wildly well. Seeing all this prosperity, the Indians and the Thais and the Malays and the Indonesians and the Vietnamese and the Chinese joined in and suddenly, the world became "over-miracled" with not only the "Four Tigers" miracle but the whole darn Asian miracle. Merchandise was flooding the world. Everybody (even the Russians) wanted to get in on the export fun. The world was choking on exports. Finally, in an effort to get a little "boost," Thailand devalued its currency and then, and then -- well, you know the rest.

(3) Do you believe that stock trends "tell us something?" If you do, study this Latin American index composed of the stock indices of Argentina, Brazil, Mexico and Venezuela. By the way, 20% of all US exports go to South America (chart courtesy of *ISI*).



(4) The rise of skepticism. We can see it in the statistics. Fewer Americans than ever trust government. Fewer are going to church. Fewer trust the media. Fewer trust their physicians. Certainly fewer trust their president. As a result, I think people have turned increasingly to tangible items, "things" they can trust such as -- money, clothes, homes, jewelry. Favorite cynical 1998 slogans -- "Need a friend, get a dog." And -- "A friend in need is -- a pain in the can."

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Ah, the crowning irony. Democrats wish that Clinton would **resign** and turn it all over to Al Gore. Dems think Clinton will be a liability in the coming elections. But wait -- Republicans want Clinton **to stay** in the White House, to remain as damaged goods that will help them, they hope, win in the November elections.

"Isolation Shrouds the White House," headlines the staid *Christian Science Monitor* (Aug. 27). Political problems are mounting for Clinton as key advisers lay plans to leave and an increasing number of party members are distancing themselves from the President. Worse, many Dems up for election don't want Clinton to visit their states. It's "do me a favor, Mr. President, don't do me any favors -- please stay away." In all, with the world in turmoil, it couldn't be a worse time for a US president to be a world laughing stock and a very lame duck.

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Exotica: A friend asked me what were the most unusual subscriptions that I had received over the years. One that comes to mind was a sub that we received from a priest residing in a leper colony in West Africa. What the good priest wanted with Dow Theory Letters is beyond me. Another strange one was a subscription from a group of "lifers" incarcerated in Sing prison, NY. And two weeks ago we received a subscription via a hand-held phone from a gentleman who was aboard his yacht floating around somewhere in the Bering Sea. All three subs checked out perfectly for credit.

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Long-time followers of the **Canadian dollar** (and I'm one) can't believe what's happening to our northern neighbor's currency. On August 26 the "northern peso" broke to a record 63.87 to the dollar. I remember back in 1977 (I was speaking in Vancouver for a Jim Blanchard seminar) when the Canadian dollar was worth $1.25, and I was complaining about the price of a breakfast. So it's hard for me to comprehend the Canadian dollar trading as though it was a total junk currency. The problem is that Canada has a commodity economy and commodities are collapsing. Also Canadian taxes are outrageously high, and the Canadian government is too-socialistically inclined.

* *

Can you believe the lousy timing of the **Goldman Sachs** gang, arguably the smartest group on Wall Street, waiting for the bear market before deciding to distribute 10% to 15% of their stock to the public? Then there's Neuberger Berman, another very savvy outfit, deciding that they too will offer the public a chunk of their stock. Personally, I'm fascinated to see whether Goldman and Neuberger will decide to pull out, bowing to the power of the bear.

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Yeltsin is speaking: "My conviction is not simply based on my own fantasy or my wish that we should not have a devaluation. My conviction is that everything has been calculated. The situation is fully under control." **The next day Russia devalued the ruble.**

* *

In the August 12 Letter I reported on Joe Granville's "one-foot rule." If you remember, Joe's rule states that whenever the list of new 52-week lows on the NYSE take up more than 12 inches of space in the *WSJ*, the market is oversold and ready to rally. Mmm, didn't work out exactly that way. Actually, breadth has been horrendous in this bear market and on August 28 with 991 new lows, I measured over eight feet of printed new lows in the *WSJ*. So I'm revising the rule; I'm now calling it "Russell's new eight-foot rule." Russell's rule is that anytime the new low list in the *Journal* is over eight-feet long, well, you just know you're in one hell of a bear market.

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Quote of the week: From Alan Abelson's column in *Barron's,* Aug. 31: "Mr. Soros also counseled setting up a currency board (in Russia). But without a currency, the idea somehow no longer seemed compelling."

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The **Hong Kong** government, worried at seeing stocks going down, decided to fight the tide via government buying of blue-chips and futures. Traders estimated that the government spent at least $7 billion in their manipulative efforts. The Hong Kong market spurted at first, but over the weekend (ending Aug. 31) Hong Kong stocks dropped 7%. Said a trader quoted in the *WSJ*, "They're going to pay for my stocks, so I'm happy to take the money."

* *

Speaking of **Russia,** last July the IMF handed Russia $4.8 billion to prop up the ruble. The money disappeared as the ruble headed south, dropping 30% against the dollar over the next few weeks. According to the London *Financial Times,* the IMF is expected to hand Russia the second part of its $11.2 billion loan in September, this to replenish the central bank's reserves. In the meantime, Russia has confessed that it can't pay its foreign debts and it has demanded that short-term bondholders accept long-term paper and 30% of face value. Russians with deposits in banks are lined up in a vain effort to get their money out. In reaction, many banks have locked their doors. The banks just don't have the money.

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Economists are debating whether the bear market will have any effect on consumer spending in the US. Yeah, it will. The first hint came last week when it was announced that consumer spending dropped 0.2% in July, the first monthly decline in two years.

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The *Barron's* of August 31 contains two opposing pages, one entitled "A Ray of Sunshine?" in which five analysts all express bullish views. The opposite page, entitled "Technical Havoc," starts off quoting me plus a few other "technical" analysts. It's notable that all five of the analysts in the bullish article are employees of brokerage houses. I want to make this comment: There's a vast difference between an analyst who is offering predictions about the stock market -- and a money manager who has to make hard, win-or-lose money decisions. Here in this bear market an analyst can blithely predict that "the Dow will be back above 9000 by the end of the year" (and a few are doing just that). But for the money manager who's dealing with actual frightening losses, such "predictions" are not only worthless, they're downright annoying.

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At some point somewhere ahead the Fed will drop rates -- and the market will sell off on the news. Why? The public will take the Fed's action as a sign that the Fed is worried. By the way, technically, **rates are now inverted** with Fed Funds yielding more than long bonds. This has happened as yields on the long

bonds have declined, while the Fed Funds rate has held steady. Of course, this presents a problem for the banks, which can't make money borrowing short at higher rates and loaning long at lower rates.

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A subscriber called to ask whether I have ever received a Dow Theory bear signal and a bear signal on my PTI on the same day, as occurred on August 4. The answer is no, never happened before. What's the meaning of this "double combination"? I don't know, but I don't think it can be bullish.

By the way, I've been meaning to say this. I read loads of economic and stock market stuff every day. On top of that I have Bloomberg and CNBC tuned in all morning until an hour after the close. I also check a few favorite web sites on the Net after the close. And the honest truth -- I get more out of my rundown on the daily stock market statistics than all the other stuff taken together. Yes, give me price action, price action, price action, that's what I go by, that's what I trust, that's the only data that's never wrong. Of course, my interpretation of the data can be wrong -- but if my PTI is going south, if the Dow Theory is bearish, if the breadth is sinking, I don't give a damn what any of the "experts" on TV or on Wall Street say, I'll trust my data. Price action takes everything into account, price action always deals with what's ahead. **Economic data is history, price action is the future.** Never forget that.

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My old buddy, Wayne Marcus, has just returned from a two-month trip through Laos, Thailand and Burma (Myanmar). He told me, "Dick, things in Asia are worse than you read. For instance, two years ago when I was in Bangkok the city was alive with building -- I couldn't sleep at night because of all the noise of cranes and drilling. This time, dead -- zero construction. In Burma the crazy government has shut down all the universities. How do these people think they're going to compete in the modern world with their universities closed down?"

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VW's Chairman shelled out $793 million for what he thought was all of Rolls Royce. Incredibly, it turned out he "messed up" because he didn't buy the name, Rolls, although he did get the antiquated Crewe factory and the Bentley name. In the meantime, BMW will pay Rolls-Royce $66 million for the name Rolls-Royce. Then in 2003 BMW will take control of Rolls-Royce Motor Cars while VW will establish a new company called Bentley Motor Cars based at the old Crewe factory. BMW will build a new factory in England to assemble the Rolls Silver Seraph and future models. **Russell Comment:** BMW got the name, VW got the shaft.

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Mercedes, to my mind, turns out the best cars in the world, and is probably the smartest auto company in the world. And soon Chrysler will have the benefit of the great Benz engineering. Coming up at Mercedes, the return of the Maybach. This will be Mercedes' competition in the ultra-deluxe market. The Maybach will be nearly 29 inches longer than the current S-class, it will sell for around $225,000, and only 800 to 1000 Maybachs will be turned out annually. **Russell Prediction:** The Maybach will be the hottest super-luxury sedan on the market. Mercedes does it right. By the way, the name Mercedes came from the daughter of the company's founder. Yep, her name was Mercedes.

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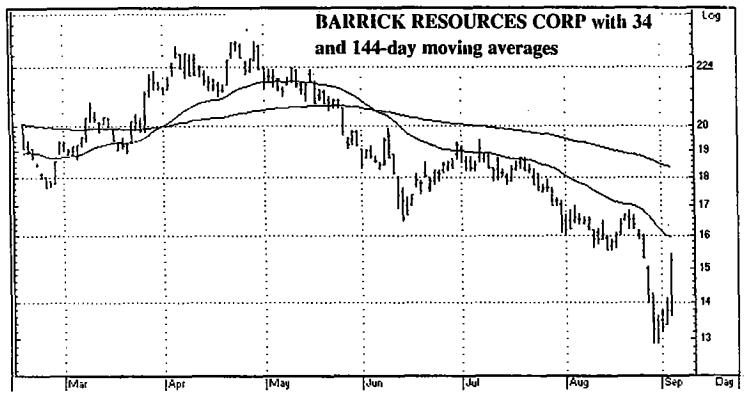
GOLD: The monetary system of the world is sinking in a nightmare of denials, screw-ups, credit collapses and devaluations. Sooner or later, the world's central bankers are going to have to get together and come up with a plan. At that time these dolts may see that the monetary system needs an anchor, something beyond more and more paper. That anchor will be gold -- there isn't anything else. Oh, another thing. We're in a deflationary bear market, and ultimately the central bankers are **going to try to inflate us out of this mess.** That's why gold and gold shares are now being accumulated.



Barrick Resources is the world's most profitable gold mine and the only one with an "A" rating. Their production is going up. Barrick (ABX), like most of the gold shares, looks sold out, really exhausted on the downside. On Sept. 3, as gold popped up four bucks, Barrick climbed to just above 15. Nothing is proved yet, but I think it's worth buying some shares in Barrick and just putting them away. If gold is ever going to turn bullish on a trend basis (and it will happen), ABX should be a leader. If you believe that gold is here to stay and that its time will come, put away some Barrick. I also like the action in Homestake and Newmont Mining. All three are on the NYSE.

LATE NOTES: I can't prove it, but I still sense a **stubborn, ingrained bullishness on the part of investors.** Day after day (usually in the first hour) bottom-fishers rush in, hoping to catch that elusive bottom, the bottom "loaded with bargains." And, of course, one day they will catch some kind of a bottom -- that is, if they don't go broke first.

As the blue-chips drop, they offer increasing competition to the thousands of lesser quality secondary stocks (and many of the secondary stocks have now lost anywhere from 25% to 75% of their peak value). "After all, now that Coke and Procter are down substantially, why should I even be looking at some junky little non-dividend paying stock?" That's how the thinking runs in a bear market -- sagging "good" blue-chips drive out those "bad" secondaries.

Instead of taking in the big picture, investors continue to zero in on the obvious "problem of the day." First the problem was Japan, then it was Thailand, then it was all of Asia, then it was Clinton and Monica, then it was Russia, then it was South America, then it was Hong Kong with China looming up in the background. Gosh, if we could only solve those problems.

Subscribers ask me what to expect, "Russell, do you have a scenario?" I don't have a scenario, but if I had to come up with one this is what it would be. The market continues to be very erratic with rallies and declines, finally slumping (maybe smashing) to an October or November bottom. From there the market embarks on an explosive upward correction, the correction maybe carrying deep into the first quarter of 1999 (shades of 1929-30?). Following the upward correction, the bear takes hold again and by mid-1999 the market is breaking to new bear market lows. It's here that the public finally turns stone-bearish. That's as far ahead as my scenario goes, and remember, this is all pure Russell fantasy, so please don't bank on it.

Aside from the collapse in non-blue-chip stocks, one important feature of the bear market so far is the cave-in in the financial stocks plus the collapse in the brokerage stocks. I take both of these events seriously; remember, Wall Street and its bankers have their fingers on the pulse of the market, and in a bear market volume declines, margins decline, credit ratings decline and the ranks of the brokers decline. Meanwhile, *IBD's* **Mutual Fund Index** (23 leading equity-growth funds) is down 10.4% for the year so far. Oh, by the way, the **Dollar Index** has now wiped out all its gains of 1998. Hey, it's a jungle out there.

NEXT MAILING: Sept. 23, 1998